vrije Universiteit amsterdam

School of Business and Economics

Trial Exam
Accounting I

Calculator allowed: Yes

Graphical
Calculator allowed: No

Remarks:

- Answers must be written down in the answer sheet. Write your name and student number on both the assignments and the answer sheet.
  Both the exam and the answer sheets must be handed in at the end of the exam.
- A list of account names is given in the Appendix (page 3). You may only use these account names when making journal entries.
- You must show your calculations.

Assignment 1 (20 credits)

Christie NV provides fraud prevention services. It sells, for example, cameras to prevent theft. It also has a consultancy division that gives advice in preventing fraud.

During the fiscal year 2013/2014 the company engaged in the following transactions (amounts presented in 1,000s):

1. On 1 July 2013 goods purchased at a price of € 25 were sold on account for € 45.
2. On 1 August 2013 the company moved into a new office building. On the same date the 3-year rent of € 144 was paid in cash.
3. On 1 October 2013 Christie issued an 8% bonds payable loan of € 500.
4. On 26 October 2013 wages for October were paid for a total of € 55.
5. On 15 November 2013 debtors paid € 15 for previously rendered services and delivered goods.
6. On 30 November 2013 a 2-year consultancy contract was signed by a new client. An amount of € 34 was paid immediately by the client. This amount pertains to the complete contract period of 2 years. The work will be executed evenly during the 2 years, starting on 1 December 2013.

a. Provide the journal entries for the transactions listed above.

On 30 June 2014, the end of the fiscal year, the controller identifies that the company has not posted (adjusting) journal entries related to the following points:

7. The interest of the bonds payable. (The interest is due annually on 30 September.)
8. Christie NV owns 5 trucks purchased on 1 July 2011 for a total of € 100. The estimated residual value of the cars after 5 years is € 2 per truck. Depreciation is based on the straight-line method in 5 years.
9. A provision for uncollectible accounts should be formed for 4% of sales of the fiscal year. Sales on account were € 900.
10. Accounts of a total of € 30 turned out to be uncollectible.

b. Provide the (adjusting) entries for the facts 7 through 10 per the end of the fiscal year.

Appendix: Account Names

Only use the following accounts when preparing journal entries.

Accounts Payable	Loss on Sale of Assets
Accounts Receivable	Machines
Accumulated Depreciation Automobiles	Merchandise Inventory
Accumulated Depreciation Buildings	Mortgage Payable
Accumulated Depreciation Equipment	Notes Payable
Accumulated Depreciation Machines	Paid-in Capital, Treasury Stock
Additional Paid-in Capital	Prepaid Insurance Premiums
Advertising Expenses	Prepaid Rent
Allowance for Uncollectible Accounts	Prepaid, Other
Automobiles	Purchases
Bonds Payable	Purchases Discounts
Buildings	Purchases Returns &Allowances
Cash	Rent Expense
Common Stock	Rent Payable
Common Stock Distributable	Rent Revenues
Cost of Goods Sold	Retained Earnings
Depreciation Expenses	Sales Discounts
Dividends	Sales Returns &Allowances
Dividends Payable	Sales Revenues
Equipment	Service Revenues
Estimated Warranty Liability	Stock Dividends
Gain on Sale of Assets	Supplies
Income Taxes Expenses	Supplies Expense
IncomeTaxes Payable	Treasury Stock
Insurance Expenses	Uncollectible Accounts Expense
Interest Earned	Unearned Revenues
Interest Expenses	Wages Expense
Interest Payable	Wages Payable
Interest Receivable	Warranty Expenses
Loan Payable	

Assignment 2 (16 credits)

a. What accounting principles are applied when making a journal entry concerning the creation of a provision for bad debts?

At the end of a fiscal year a company had liabilities of € 1,020 and assets of € 1,920. At the beginning of the fiscal year these were respectively € 1,120 and € 1,700. During the year, expenses of € 1,260 were recorded, dividends of € 40 were declared and paid, and stockholders' net capital investments were € 90. (All amounts are in € 1,000s.)

b. Calculate how much revenue the company earned, assuming that all relevant information is provided.

c. The Dutch Football Association (KNVB) must supervise the financial health of the associated football clubs. The KNVB could make agreements with the clubs that financial ratios must have at least some predetermined levels.

   Which of the following agreements is from the KNVB's point of view most likely? Clarify your answer. Explain also why the other 3 agreements are less likely.

   1) Return on stockholders' equity must exceed 25%.

   2) Asset turnover must be at least 15.

   3) The debt to equity ratio must be lower than 50%.

   4) Times interest earned ratio must be lower than 1.

The 2014 income statement of a company shows the following information: net income € 390, depreciation expense € 120, interest expense € 70, gain on sale of equipment € 9, and income tax expense € 110.

Two consecutive balance sheets show the following: cash increased € 21, accounts receivable increased € 11, goods inventory decreased € 34, accounts payable increased € 24, interest payable decreased € 6, and retained earnings increased € 350. (All amounts are in € 1,000s.)

d. Calculate the cash flow from operating activities.

Assignment 3 (16 credits)

A company collected the following annual cost information:

	Variable	Fixed
Materials	€ 160,000	
Labor	€ 320,000	
Manufacturing overhead	€ 80,000	€ 120,000
Marketing	€ 8,000	€ 30,000
Distribution	€ 20,000	
General	€ 4,000	€ 10,000

The company’s annual production capacity is 10.000 units. Current sales and production volume is 8.000 units. Unit selling price is € 99. Income tax is 30%.

a. Calculate the company’s break-even point.

b. Calculate the net income earned at a sales volume of 9,000 units per year.

c. Calculate the company’s safety margin in percent (1 decimal place) at the current sales volume.

d. Calculate the number of products the company must sell in order to earn a net income of € 36,750.

The marketing department proposes to spend an additional amount of € 25,000 on marketing. They expect this will increase the sales volume in 800 units.

e. Assess whether this is a beneficial option.

A customer wants to make a special order of 1,500 units at a sales price of € 80. The special order will not cause variable marketing and distribution costs and will have 75% of normal variable material costs per unit.

f. Assess whether the company should accept the special order.

Assume the company has a production capacity of (only) 9,000 units. The special order must be accepted completely or fully rejected.

g. Calculate whether the company will accept the special order under this condition.

h. Give 2 limitations of CVP-analysis.

Assignment 4 (14 credits)

Wiset NV produces a product called Crimo, which has the following standard cost:

Direct materials	2.00	kg	@	€ 2.50	=	€ 5.00
Direct labor	0.25	uur	@	€ 30.00	=	€ 7.50
Variable manufacturing overhead	0.10	uur	@	€ 25.00	=	€ 2.50
Fixed manufacturing overhead	0.10	uur	@	€ 20.00	=	€ 2.00

Budgeted production and sales for 2014 were 88,000 units. Budgeted selling price was € 20 per unit. Budgeted fixed overhead costs were € 176,000. Manufacturing overhead is allocated by machine-hours. Wiset had a beginning materials inventory of 6,000 kg and a target ending inventory of 8,000 kg.

Actual production and sales in 2014 were 90,000 units, with a selling price of € 19.20 per unit. Actual materials usage was 184,500 kg with a total purchase cost of € 454,025. Labor costs were € 675,180, at an average hourly wage of € 30.25. In 2014, 9,900 machine hours were used. Actual variable overhead was € 249,480 and actual fixed overhead costs were € 169,000.

4a. Which of these two statements is true?

I A budget is a prediction.
II A flexible budget contains costs that are not flexible.

4b *The materials purchase budget for 2014 was?*

4c *The sales volume variance for 2014 was?*

4d *The direct materials efficiency variance for 2014 was?*

4e *The direct labor price variance for 2014 was?*

4f The variable manufacturing overhead flexible budget variance for 2014 was?

4g *The fixed manufacturing overhead budget variance for 2014 was?*